Marketing Ethical Issues In Banking Industry

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Abstract
In this competitive world every bank wants to have maximum market share. In this run for maximum share different types of marketing strategies and tactics are adopted by banks. But for the growth and survival every business has to trade off between 'profit' and 'ethical' issues concerning their marketing strategies. So, some of these marketing strategies adopted by banks can be unethical. Unethical practices can benefit in short run but can severely damage reputation of bank in the long run. In general, ethics is defined as “a branch of philosophy dealing with what is good and bad and with moral duty and obligation”. Ethics is the common agreed upon practice of different moral principles or values. It concentrates on the general nature of moral and the specific moral choice an individual makes in relationship to others. Ethics in banks is all the more important as it establishes confidence of public in the system. Good ethical practices are important for banks as banking system is based on trust and confidence of people. Present paper is modest attempt to uncover unethical practices in marketing of banks and issues that create ethical conflict.

Keywords: Banking, Ethical issues, Ethics, Marketing Ethics

Introduction
The Banks are the main participants of the financial system in any country. Banks are backbone of economy of a country and main factor for growth and development of a country. They are one of the important financial pillars of the economy, which plays a vital role in the functioning of an Economy. In this competitive world every bank wants to have maximum market share. In this run for maximum share different types of marketing strategies and tactics are adopted by banks. But for the growth and survival every business has to trade off between 'profit' and 'ethical' issues concerning their marketing strategies. So, some of these marketing strategies adopted by banks can be unethical. Banking is essentially based on trust where depositors entrust their funds to banks for safety and investment. Consequently, banking business must be done in a transparent and ethical manner to uphold the trust of the stakeholders. Effective market discipline requires that there exists a culture of financial transparency and ethical standards in the banks worldwide. Banks have however often been criticized for indulging in unethical and unprofessional practices. Unethical practices can benefit in short run but can severely damage reputation of bank in the long run. In general, ethics is defined as “a branch of philosophy dealing with what is good and bad and with moral duty and obligation”. Ethics is the common agreed upon practice of different moral principles or values. It concentrates on the general nature of moral and the specific moral choice an individual makes in relationship to others. Ethics in banks is all the more important as it establishes confidence of public in the system. Good ethical practices are important for banks as banking system is based on trust and confidence of people.
Complaints received by Banking Ombudsman

The Banking Ombudsman Scheme was established by the Reserve Bank in 1995 to provide speedy solutions to the grievances faced by bank customers. The Scheme is applicable to Scheduled Commercial Banks, Scheduled Primary Urban Co-operative Banks and the Regional Rural Banks. The Scheme has undergone several revisions during the years 2002, 2006, 2007 and 2009. Presently, the Banking Ombudsman Scheme 2006, (BOS) as amended up to February 3, 2009, is in operation. There are 15 Banking Ombudsmen with specific State-wise jurisdiction covering all the 29 States and 7 Union Territories. Reserve Bank of India published its Annual Report of the Banking Ombudsman Scheme for the year 2014-2015. The report is a synopsis of activities of all the 15 offices of Banking Ombudsman.

Highlights of the Report

- During the year 2014-15, 85,131 complaints were received by 15 Offices of the Banking Ombudsmen.
- The number of complaints increased by 11.2 per cent as compared to the previous year.
- Offices of Banking Ombudsmen maintained a disposal rate of 96 percent.
- The Banking Ombudsmen issued 87 Awards during the year.
- The Appellate Authority received 73 appeals during the year against the Awards/decisions of Banking Ombudsmen.
- Complaints pertaining to failure to meet commitments, non-observance of fair practices code, Banking Codes and Standards Board of India (BCSBI) Codes taken together constituted the largest category of complaints with 29.2 per cent of complaints received.
- Card related complaints comprised 21.3 per cent of total complaints received. Complaints pertaining to ATM/Debit card operations comprised 12.5 per cent of total complaints received whereas, 8.8 per cent complaints were pertaining to credit card operations.
- Complaints in the category of Pension (6.8 per cent), Levy of charges without prior notice (6.5 per cent), Loans and Advances (5.7 per cent), Deposit Accounts (5.5 per cent), Remittances (3.2 per cent) were other major areas of complaints.
- Offices of Banking Ombudsmen organised awareness campaigns/outreach activities, Town Hall events, advertisement campaigns to spread awareness about the Scheme especially in rural and semi-urban areas. (www.rbi.org.in)

Ethical marketing

Ethical marketing is less of a marketing strategy and more of a philosophy that involves all marketing efforts. It seeks to promote fairness, honesty and responsibility in all marketing functions. Ethics is a debatable subject because everyone has subjective judgments about what is “right” and what is “wrong.” For this reason, ethical marketing is not a rigid list of rules, but a wide-ranging set of guidelines to assist companies as they evaluate new marketing strategies. There are different advantages and disadvantages to ethical marketing. Unethical advertising is often just as helpful as it is unethical. So since unethical behavior is not essentially against the
law, there are many companies who use unethical advertising to gain a competitive advantage. It is impossible to claim that any company is completely ethical or unethical. Ethics resides in a gray area with many fine lines and shifting boundaries. Many companies behave ethically in one aspect of their advertising and unethically in another.

Some of the factors that need to be considered for ethical marketing are:-

- All marketing communications should share the common standard of truth.
- Marketing professionals should abide by the highest standard of personal ethics.
- Advertising should be clearly distinguished from news and entertainment content.
- Marketers should be transparent about who they pay to endorse their products.
- Consumers should be treated fairly based on the nature of the product and the nature of the consumer.
- The privacy of the customer should never be compromised.
- Marketers must comply with regulations and standards established by governmental and professional organizations.
- Ethics should be discussed openly and honestly during all marketing decisions.

(www.marketing-schools.org)

Reasons For Ethical Misconduct
The fear of penalties alone is implausible to prevent misconduct sufficiently. The downside risk for individuals is partial and, in large banks, inadequate systems and controls can mean that a bank's senior management is ignorant of emerging misconduct issues. Misconduct is embedded in conditions commonly encountered in financial markets. Major conditions for misconduct pointed by European Systematic Risk Board (ESRB) are described below.

(a) Uneven incentives/moral hazard: Banks may think they can get away with misconduct, believing that public authorities are unlikely to apply major penalties because of their general nature. Individuals may have a short-term prospect and care less about the long-term repercussions for a bank. Also, both individuals and banks may underestimate the likelihood that misconduct will be noticed, and, if it is noticed, that it will be authorized.

(b) Information irregularity and conflicts of interest: Information irregularities and conflicts of interest between banks and customers can lead to mis-selling, for instance of complex products to retail clients. Information asymmetries may also occur within an institution, e.g. if a risk or compliance department is unable to handle all the information coming from the front office properly.

(c) Herding behaviour: Herding behaviour can mean that misconduct at one bank spreads across the sector, as the behaviour comes to be seen as the “market norm” and no bank wants to forgo the extra earnings it may generate. This has been witnessed in the case of benchmark manipulation, which was widespread among a large share of the relevant panels.

(d) Lack of competition: Lack of competition may lead banks to mis-sell products, as customers have a restricted choice of banks. (Report on misconduct risk in the banking sector, June 2015)

Some other factors leading to misconduct in banking can be:

- Self interest morphs into greed and selfishness - Sometimes greed of employees becomes a passion of accretion for gaining profit. Their focus shifts from long term to short term.
- Lack of transparency - When a customer is paying for the services, he has full right of transparency and loyalty from the institution. But bankers advocate those investment plans to the
customers in which bank is making maximum profit rather than informing the customer about the composition of the investment.

*Conflict of interest* - Bankers can be in close proximity to the customer, consequently the banker can experience conflict of interest. For instance insurance personnel can guide the customer to divide his whole amount of investment in small amount and increase the number of policies to evade the requirement of PAN number and to misguide the income tax authorities and hence increasing his commission.

*Equity* - Equity means unbiased treatment. Customers should be treated equitably and service dealing should not be based on favoritism or the financial position of the customer. It's a true fact about the banking industry that if a customer is financial sound, maintains good balance in bank, that customer will get warm welcome and all the kind of services will be provided to him on his doorstep.

*Outcome based -Reward system* - In India reward systems are result based and not service or behavior based. To fulfill the assigned target, bank staff often engage in practices to misguide the customer.

**Unethical practices in banks**

Unethical practices in banks is not something that is uncommon. Banks most of the time indulge in unethical practices be it charging exuberant interest rates, unjustified charges, speculative banking or any other reason. Also when banks lend money to others, the bank may not be doing wrong by itself; it is these other entities which might be engaged in wrong-doing. However, this does not excuse banks from their moral responsibility. Money enables and promotes actions, and in this sense, banks lending money to evil-doers are facilitating their activities. Some of the unethical practices banks indulge in are discussed below:-

**Usurious practices.**

One of the principal purposes of Banks is to generate wealth, in the form of financial returns for its shareholders. Just like any other industry, it is logical and acceptable that banks try their best to maximize their investments and therefore, it is reasonable that banks charge interest rates on the loans and financing activities they offer to their clients. However, banks that charge excessive interest rates, ultra-profitable credit, or abusive commissions charges that go beyond logical standards for taking an extra benefit from a specific situation in detriment to their customers, are guilty of usury. Usury may be defined as demanding considerably more money back from customers than is just and fair. Banks are also guilty of some forms of usury when they encourage their customers, especially individuals, to go into excessive debt by taking irresponsible credit at too high interest rates. Some credit customers, especially those located in low-credit penetration group are often being subjected to excessive marketing and pressure to drive them into credit at advantageous interest rates that go beyond what is customary in the industry.

**Speculative banking.**

The assets a bank lends and invest should be handled responsibly, as the bank is investing and lending money that belongs to other people, i.e., the individual and institutional investors whose money they manage. Engaging in excessively speculative investments and negligent credit lending practices is morally objectionable, and in many cases, not even good business. Bankers and financial professionals should take a responsible approach in all investment and lending
operations with its customers' money. Even in the case of high-risk, high-return type of clients, a bank is the ultimate entity making the investment decisions for the investors, and practices of speculatively investing heavily in too-risky securities just for the sake of short-term returns should be considered cautiously, especially given the massive loss of wealth that we have witnessed during the current financial crisis. The point is that there is always an ethical component involved in these too-risky investments that is being ignored. The situation of over-speculative, over-risky banking gets especially complicated from a moral perspective when we consider that clients rarely receive the necessary, detailed information to let them know what kind of investments their bankers are undertaking with their money. Another aspect of concern regarding speculative banking, is that it might result in huge losses for their customers while their executives continue to receive huge amount of compensation packages and bonuses.

**Financing of companies with little or no commitment to social responsibility.**
The banking industry usually grants credit facilities to companies, and helps in raising capital in the financial markets, to companies operating with no socially-responsible agendas, or with little commitment to one. Companies that allow child-labor, overwhelming pollution of the environment, black economies, and so forth are not discriminated in giving loans. It has been observed companies that have little respect for their workers and which have consistently violated labor laws are having no problem securing credits from well-known banks. So far, banks have not been interested in questioning clients about their human-rights or social-impact agendas. Banks tend to look at the risk-return ratio of their investment as the sole basis for granting the credit.

**Ecological Impact.**
Banks are expected to look more in detail at the potential ecological damage that their clients could be generating when receiving financing from them. Companies known to be involved in activities that result in considerable environmental damage through the extraction of fossil fuels for instance; companies that manufacture products which persist in the environment and are linked to health concerns; companies polluting the seas through the release of toxic chemicals; and any other company damaging the ecology should not receive financing so easily as they do today from banks and financial institutions. While it is recognized that avoidance of all possible environmental damage is often very costly and hard to achieve, but the efforts should be at least seriously pursued. It is expected that companies actively search for a balance between their activities, their use of natural and human resources, their production processes and the respect for the environment. The same rationale applies for companies involved in aggressive, unnecessary animal testing of cosmetics and household products or ingredients. It is recognized testing is an important step of many manufacturing processes; it is unnecessary, abusive, excessive, testing which needs to be avoided.

**Financing, donations and sponsorships contrary to the good of the family.**
As financial institutions handle huge amounts of capital, the impact of their donations and sponsorships can be significant and the money they channel through donations can have important impact on society. In this respect, the main concern is with banks giving active support to organizations that advocate against the institution of family and against family-values. It is
known that there are many viewpoints regarding the value of families and their role in society, it is expected to keep banks investments away from companies promoting non-family friendly causes and activism.

**Involvement in social enterprise.**

The banking industry plays a key role in the development of the markets in which it operates. By lending and raising money, a bank can effectively help develop a community, but more than that, a bank is expected to get actively involved in supporting the development of that community in which it operates. More and more banks and financial institutions are praised when they support organizations such as cooperatives or credit unions, or get involved in financing of community initiatives. Given the fact that a bank benefits directly from the economic resources of a community, it is of concern when a bank openly neglects to help those communities in which it conducts business. (Serrano, 2010)

**Non availability of guarantees and warranties.**

Services are sold without guarantee and warranty. In April 2013 Dr. Chakrabarty, RBI deputy governor, supported Moneylife Foundation’s appeal that banks should not be allowed to sell third-party or non-banking products like insurance, gold and mutual funds because they are untrained to do so and do not take responsibility of the outcome in any manner. (Mittal et.al ,2014)

**Conclusion**

Banks are one of the important financial pillars of the economy, which plays a vital role in the functioning of an Economy. It is very essential for economic development of a country that its financing necessities of trade, industry and agriculture are met with higher degree of responsibility and commitment. Participants in the banking sector should be true professionals and should adopt fair and best practices of the industry. They should comply to the ethics and rules strictly. If any illegal or unethical activity is suspected by a financial service provider then it should be discouraged and if required should report to the concerned authorities. Banking ombudsmen scheme was in fact established for the same purpose. Banks should be judicious in lending. They should make thorough assessment of their clients (whether individual or company) for advancing loans to them. They should make sure that they are not providing credit to those entities that indulge in wrong activities or damage society or environment in any way. They should be cautious in using funds of their clients in different investments. They should avoid being over- speculative and over-risky. In financial services risk and return factor should be placed accurately so that customer can make a prudent decision. They should be unbiased, meaning that service provider should not be inclined by personal relationship, personal benefits such as gifts or other forms of compensation. In financial services risk and return factor should be placed accurately so that customer can make a prudent decision. Customer's secrecy should not be compromised for personal gain.
References
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